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**CITY OF OLIVE BRANCH
OLIVE BRANCH, MISSISSIPPI
FINANCIAL STATEMENTS AND SPECIAL REPORTS
YEAR ENDED SEPTEMBER 30, 2003**

CITY OF OLIVE BRANCH, MISSISSIPPI

ANNUAL FINANCIAL REPORT

Year Ended September 30, 2003

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CITY OF OLIVE BRANCH, MISSISSIPPI

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Mayor and Board of Aldermen
City of Olive Branch
Olive Branch, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund, and the aggregate remaining fund information of City of Olive Branch, Mississippi, as of and for the year ended September 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Olive Branch's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Olive Branch, Mississippi as of September 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note M, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of September 30, 2003.

The management's discussion and analysis and budgetary comparison information on pages 3 through 13 and 41, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Olive Branch's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 27, 2004 on our consideration of the City of Olive Branch's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Williams, Pitts & Beard, PLLC

Williams, Pitts & Beard, PLLC
Certified Public Accountants
February 27, 2004

OLIVE BRANCH, MISSISSIPPI

MANAGEMENT'S DISCUSSION AND ANALYSIS

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OLIVE BRANCH, MISSISSIPPI

Management's Discussion and Analysis
For the Year Ended September 30, 2003

INTRODUCTION

The discussion and analysis of City of Olive Branch's financial performance provides an overall narrative review of the City's financial activities for the year ended September 30, 2003. The intent of this discussion and analysis is to look at the City's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the City's financial performance.

This discussion and analysis is a new element of required supplementary information specified in the "Governmental Accounting Standards Board's (GASB) Statement No. 34 – Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" issued June 1999. Certain comparative information between the current year and the prior year is required to be presented. However, since this is the first year of implementation of the new reporting model contained in GASB Statement No. 34, the Statement permits the omission of prior year data in the year of implementation. The City has elected not to present comparative data.

The City of Olive Branch is located in northwestern Mississippi along Ms Highway 78. The population, during the 2000 census, was 21,054. Current estimates indicate the population now exceeds 25,000. The local economic base is diverse with a strong contingent of manufacturing and distribution industries. In 2003, Olive Branch was fortunate to have 5 new industries locate here, 9 expansions, over \$127 Million in new capital investments from industries, and the creation of 650 new jobs. Source – DeSoto Economic Development Council

FINANCIAL HIGHLIGHTS

The City of Olive Branch is financially stable. The City has committed itself to financial excellence for many years by using sound financial planning, budgeting and strong internal controls. The City is committed to maintaining sound fiscal management to meet the challenges of the future.

With continuing growth in population, the City has experienced dramatic increases in the cost of public services, public safety, and infrastructure improvements. While tax revenues increased with the phenomenal growth, the resulting demand for services and infrastructure improvements outpaced the revenue increase. The City's ad valorem tax rate was increased from 25.5 mills to 31.5 mills in 2002 for 2003 to help cover increased costs associated with population growth and debt service.

Total net assets increased \$ 5,847,343, which represents a 62 % increase from the prior fiscal year. The City's ending cash balance increased by \$1,953,064, which represents a 72% increase from the prior fiscal year.

The City had \$32,215,083 in total revenues. Tax revenues account for \$7,246,316 (or 22%) of total revenues. Sales of utilities totaled \$18,323,990, or 57% of total revenues.

The City had \$30,774,027 in total expenses. Expenses in the amount of \$4,406,287 were offset by grants, outside contributions or charges for services. General revenues of \$10,638,056 were adequate to provide

OLIVE BRANCH, MISSISSIPPI

Management's Discussion and Analysis (continued)

for the remainder of the general expenses. Sales of gas and water were sufficient to provide for the operating expenses totaling \$15,729,684.

Among major funds, the General Fund had \$17,953,528 in revenues and \$15,512,820 in expenditures. The General Fund's fund balance increased \$2,440,708 over the prior year.

Capital assets, net of accumulated depreciation, increased by \$6,486,720, consisting primarily of the new City Hall building, soccer complex, and gas and water line extensions.

Long-term debt increased by \$ 7,045,911.

Capitalizing on lowered interest rates, in 2003 the City of Olive Branch issued \$2,290,000 in General Obligation Refunding Bonds in order to refund the Series 1995 Refunded Bonds and the Series 1996 Refunded Bonds which were issued at higher interest rates. Net proceeds (after costs of issuance) from the Series 2003 G.O. Refunding Bonds, plus \$16,767 from prior debt service funds, were used to fully refund the 1995 and 1996 Refunded Issues. This resulted in \$162,074.53 in "actual dollars savings" over the life of the bonds.

The City of Olive Branch also issued \$9,000,000 in General Obligation Public Improvement Bonds for various purposes including (but not limited to) constructing a new City Hall and the George Harrison Soccer Complex, providing the City's match on a drinking water improvement project for Chateau Ridge Subdivision, extending Railroad Avenue, covering 50% of the cost of traffic signalization at the intersection of Church and Pleasant Hill Roads (DeSoto County paid 50%), and various paving and drainage improvement projects.

Again, taking advantage of lowered interest rates, the City issued \$2,100,000 in Combined Water & Sewer System Revenue Refunding Bonds in 2003 to refund the 1994 Combined Water & Sewer System Revenue Bonds that were issued when interest rates were higher. Net proceeds (after costs of issuance) from the Series 2003 Combined Water & Sewer Revenue Refunding Bonds plus funds held as debt service reserve (Cushion Funds) and funds held in the current debt service account were used to establish an escrow account with First Security bank for the redemption of the 1994 Combined Water & Sewer System Revenue Bonds in early 2004. This issue resulted in \$200,406.28 in "actual dollars savings" over the life of the bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) Government-wide financial statements, 2) Fund financial statements and 3) Notes to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

Figure 1 – Required Components of the City's Annual Report

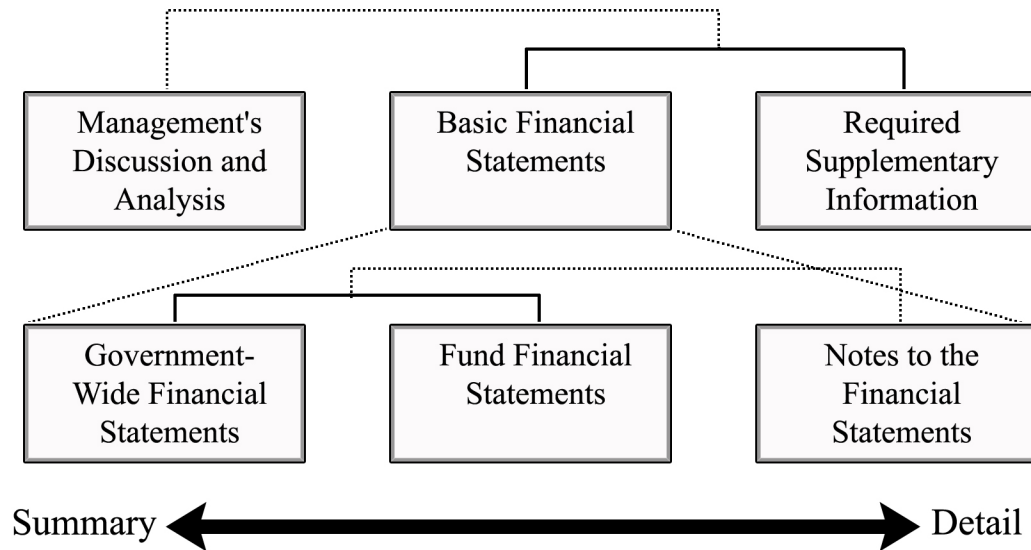


Figure 1 shows how required parts of this annual report are arranged and relate to one another.

Figure 2 summarizes the major features of the City's financial statements, including the portion of the City's government they cover and the types of information they contain. The remainder of this section of Management's Discussion and Analysis explains the structure and content of each of the statements.

Figure 2 – Major Features of the City's Government-Wide and Fund Financial Statements

	Government-Wide Financial Statements	<i>Fund Financial Statements</i>	
		Governmental Funds	Business-Type Funds

OLIVE BRANCH, MISSISSIPPI

Management's Discussion and Analysis (continued)

Scope	Entire City government and component units	All activities of the City that are not business-type or fiduciary in nature	Activities of the City that operate similar to private businesses
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital and short and long term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short and long term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services are received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City finances, in a manner similar to private-sector businesses.

OLIVE BRANCH, MISSISSIPPI

Management's Discussion and Analysis (continued)

The **statement of net assets** presents information on all City assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The **statement of activities** presents information showing how net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.

Both of these government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or part of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government; public safety; public works (roads and bridges); culture and recreation; economic development; and interest on long-term debt. The business-type activities of the City include City of Olive Branch Natural Gas System and City of Olive Branch Combined Water & Sewer System.

The Government-wide Financial Statements can be found on pages 14-15 of this report.

Fund Financial Statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate finance-related legal compliance. All of the funds of the County can be divided into two categories: governmental funds, and proprietary funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental funds financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a city's near-term financing requirements. Governmental funds include the general, special revenue, debt service, and capital projects funds.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the "Governmental Funds Balance Sheet" and the "Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances" provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 17 and 19, respectively.

The City maintains individual governmental funds in accordance with the Mississippi Municipal Audit and Accounting Guide issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental funds Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental funds financial statements can be found on pages 16-19 of this report.

OLIVE BRANCH, MISSISSIPPI

Management's Discussion and Analysis (continued)

Proprietary funds are maintained two ways. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statement. The City uses enterprise funds to account for the City of Olive Branch Natural Gas System and City of Olive Branch Combined Water & Sewer System.

Fund financial statements for the proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The City of Olive Branch Natural Gas System and the City of Olive Branch Combined Water & Sewer System are considered to be major funds of the City. Data from the other enterprise funds are combined into a single, aggregated presentation. The proprietary funds financial statements can be found on pages 20-23 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 34-39 of this report.

In addition to the basic financial statements and accompanying notes, this report also presents **Required Supplementary Information** concerning the City's budget process.

The City adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 41 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 42 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets – Net assets may serve over time as a useful indicator of government's financial position. In the case of City of Olive Branch, assets (liabilities) exceeded liabilities (assets) by 13,864,720 as of September 30, 2003.

The City has a deficit in net assets relating to capital assets in the amount of \$13,688,344, however no infrastructure relating to streets or sidewalks has been recorded at year end.

The City's financial position is a product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

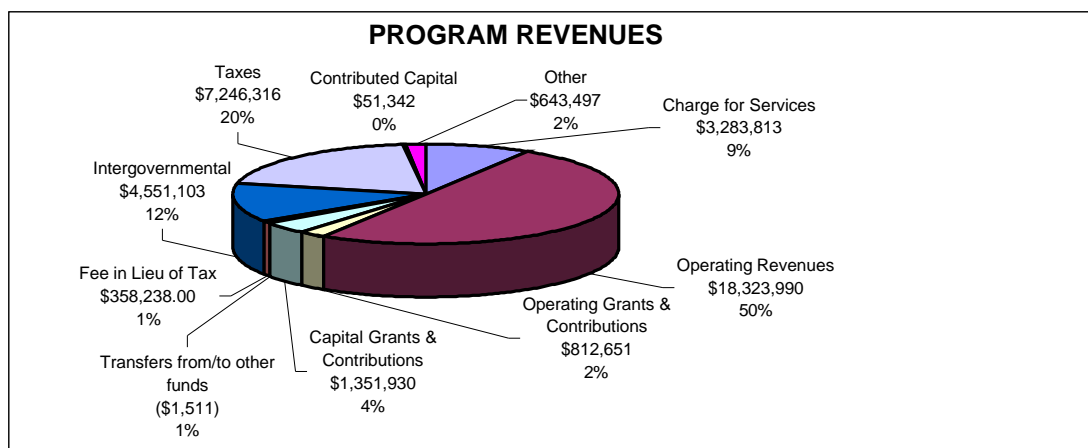
OLIVE BRANCH, MISSISSIPPI

Management's Discussion and Analysis (continued)

The following table presents a summary of the City's net assets for the fiscal year ended September 30, 2003.

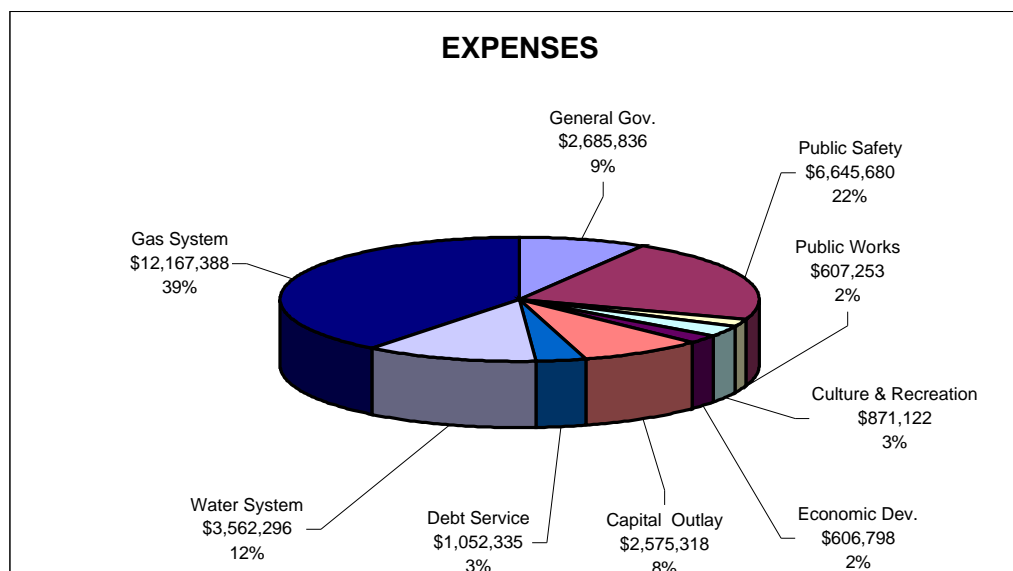
	Governmental Activities	Business-type Activities
Current assets	\$ 15,065,507	\$ 8,677,960
Capital assets, net	10,160,035	37,799,221
Total assets	<u>25,225,542</u>	<u>46,477,181</u>
Current liabilities	4,170,231	4,748,181
Long-term debt outstanding	21,895,381	27,024,210
Total liabilities	<u>26,065,612</u>	<u>31,772,391</u>
Net assets:		
Invested in capital assets, net of related debt	(13,688,344)	8,928,859
Restricted	8,763,658	2,423,686
Unrestricted	4,084,616	3,352,245
Total net assets	<u>(840,070)</u>	<u>14,704,790</u>

Changes in Net Assets – City of Olive Branch total revenues for the fiscal year ended September 30, 2003 was \$36,621,369. The total cost for all services provided was \$30,774,026. The increase in net assets was \$5,847,343. The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2003.



OLIVE BRANCH, MISSISSIPPI

Management's Discussion and Analysis (continued)



The following table presents a summary of the changes in net assets for the fiscal year ended September 30, 2003.

Revenues:

	Governmental Activities	Business-type Activities	Total
Program Revenues:			
Charges for services	\$ 3,283,813	\$	3,283,813
Operating Revenues		18,323,990	\$ 18,323,990
Operating Grants and Contributions	812,651	\$	812,651
Capital Grants and Contributions	1,351,930	\$	1,351,930
Transfers from/to other funds	1,345,784	(1,347,295)	\$ (1,511)
Fee in Lieu of Tax		358,238	\$ 358,238
Intergovernmental	4,551,103	\$	4,551,103
Taxes	7,246,316	\$	7,246,316
Contributed Capital		51,342	\$ 51,342
Other	422,668	220,829	\$ 643,497
	<u>19,014,265</u>	<u>17,607,104</u>	<u>36,621,369</u>

Expenses:

General Government	2,685,836		2,685,836
Public Safety	6,645,680		6,645,680
Public Works	607,253		607,253
Culture and Recreation	871,122		871,122
Economic Development	606,798		606,798
Capital Outlay	2,575,318		2,575,318
Debt Service	1,052,335		1,052,335
Water System	-	3,562,296	3,562,296
Gas System	-	12,167,388	12,167,388
	<u>15,044,342</u>	<u>15,729,684</u>	<u>30,774,026</u>

Change in Net Assets		<u>\$ 5,847,343</u>
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OLIVE BRANCH, MISSISSIPPI

Management's Discussion and Analysis (continued)

Note: The business-type activities consist of the City of Olive Branch Natural Gas System and the City of Olive Branch Combined Water & Sewer System.

Governmental Activities – The following table presents the cost of the major functional activities of the City.

The table also shows each function's net cost (total cost less charges for services generated by the activity and intergovernmental aid provided for that activity.) The net cost shows the financial burden that was placed on the City's taxpayers by each of these functions.

	Total Costs	Net (Costs)/Revenues
General Government	\$2,685,836	\$ (1,794,136)
Public Safety	6,645,680	(4,679,426)
Public Works	607,253	806,888
Culture & Recreation	871,122	(736,931)
Economic Development	606,798	(606,798)
Capital Outlay	2,575,318	(2,575,318)
Debt Service	1,052,335	(1,052,335)
	<u>\$ 15,044,342</u>	<u>\$ (10,638,056)</u>

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Governmental funds – At the close of the fiscal year, City of Olive Branch governmental funds reported a combined fund balance of \$13,424,326, an increase of \$8,669,785. The primary reasons for this increase are due to an increase in cash from bond proceeds exceeding capital expenditures.

The General Fund is the principal operating fund of the City. The increase/(decrease) in the fund balance of the General Fund for the fiscal year was \$2,440,708. This increase was primarily due to an increase in revenues greater than an increase in expenses.

Business-type funds – Revenue from the City's Utility Funds increased by 38% to \$18,323,990 and expenses increased by 37% to \$14,286,140. Factors contributing to these results include higher rates charged to customers and a corresponding increase in purchased gas.

BUDGETARY HIGHLIGHTS (of General Fund & Major Funds only)

Over the course of the year, City of Olive Branch revised its annual operating budget on several occasions. Significant budget amendments are explained as follows

- Budgeted revenue from charges for services increased primarily due to an increase in fine revenue. Additional police officers hired to enforce traffic laws contributed to this increase.

OLIVE BRANCH, MISSISSIPPI

Management's Discussion and Analysis (continued)

- Intergovernmental revenue increased primarily due to an increase in sales tax revenue attributed to retail growth.

Even with these adjustments, actual disbursements were below final budget amounts by \$2,453,924.

A schedule showing the original and final budget amounts compared to the City's actual financial activity for the General Fund is provided in this report as required supplementary information.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – As of September 30, 2003, City of Olive Branch total capital assets were \$10,160,035. This includes land, buildings, mobile equipment, furniture and equipment, leased property under capital lease and construction in progress. It does not include roads, bridges, and other infrastructure. This amount represents an increase from the previous year of \$3,630,983. The majority of this increase is due to City Hall and soccer complex construction.

Total accumulated depreciation as of September 30, 2003 was \$4,463,097, including \$676,205 of depreciation expense for the year. The balance in total net capital assets was \$10,160,035 at year-end.

Additional information on City of Olive Branch capital assets can be found in note E on page 30 of this report.

Debt Administration – At September 30, 2003, City of Olive Branch had \$53,562,870 in long-term debt outstanding. This includes general obligation bonds, revenue bonds, Mississippi Business Investment Act notes and obligations under capital lease. Of this debt, \$3,702,561 is due within one year.

In the past year, the County issued \$11,290,000 in general obligation bonds and \$2,100,000 in revenue bonds.

Additional information on City of Olive Branch long-term debt can be found in note F on page 32 of this report.

CURRENT/FUTURE ITEMS OF IMPACT

Along with growth, at the close of 2003, the City anticipated the addition of various restaurants and retail operations which will ultimately increase sales tax revenues. Two large hardware/home improvement centers expressed interest in the City in 2003 and subsequently both Lowe's and Home Depot began construction. Lowe's is expected to open before current fiscal year end.

Two major industries made commitments to locate in Olive Branch and have since purchased property in Olive Branch. They will be investing millions of dollars in their local facilities. The State of Mississippi, DeSoto Economic Development Council and the City of Olive Branch have worked with the industries to offer various incentives including tax exemptions and/or economic development grants to provide various infrastructure improvements that will benefit the Citizens of Olive Branch as well as benefiting these industries who will ultimately bring job opportunities and strengthen the local economy.

OLIVE BRANCH, MISSISSIPPI

Management's Discussion and Analysis (continued)

While an unemployment rate specific to the City of Olive Branch is unavailable, DeSoto County had an unemployment rate of 3.6% in 2003 versus 3.7% in 2002. This compares favorably with the state's average rate of 5.93% over the last 10 years and the United States' average of 5.13% over the last 10 years. *Source – Desoto Economic Development Council*

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the office of the City Administrator or the office of the City Clerk at 9189 Pigeon Roost, Olive Branch, Mississippi 38654.

BASIC FINANCIAL STATEMENTS

CITY OF OLIVE BRANCH, MISSISSIPPI

Statement of Net Assets Year Ended September 30, 2003

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash in bank and on hand	\$ 2,432,442	\$ 2,240,369	\$ 4,672,811
Accounts receivable	1,267,138	1,926,162	3,193,300
Intergovernmental receivables	496,313	-	496,313
Interest receivable	-	152,868	152,868
Prepaid expense	597,373	159,019	756,392
Due from other funds	531,111	-	531,111
Loans receivable	-	414,501	414,501
Restricted assets:		-	-
Customer deposits	-	828,818	828,818
Cash in bank	9,735,140	2,423,686	12,158,826
Bond issue costs (net)	-	532,538	532,538
Fixed assets (net, where applicable, of accumulated depreciation)	10,160,035	37,799,221	47,959,256
Total assets and other debits	<u>\$ 25,219,552</u>	<u>\$ 46,477,181</u>	<u>\$ 71,696,733</u>
Liabilities			
Accounts payable	\$ 932,232	\$ 894,087	1,826,319
Accrued expenses	962,110	224,570	1,186,680
Accrued interest payable	28,169	423,442	451,611
Customer deposits	-	828,818	828,818
Due to other funds	-	531,111	531,111
Deferred revenue	28,957	-	28,957
Capital lease payable-current	572,459	257,650	830,109
General obligation bonds payable-current	1,089,650	396,952	1,486,602
Notes payable-current	-	161,550	161,550
Revenue bonds payable-current	194,300	1,030,000	1,224,300
Warranty bonds	356,364	-	356,364
Non-current liabilities			
Capital lease payable	1,073,030	321,544	1,394,574
General obligation bonds payable	17,361,250	3,685,268	21,046,518
Notes payable	414,501	3,467,027	3,881,528
Revenue bonds payable	3,046,600	19,980,000	23,026,600
Deferred loss on early retirement of debt	-	(429,629)	(429,629)
Total liabilities	<u>26,059,622</u>	<u>31,772,391</u>	<u>57,832,013</u>
Net assets			
Invested in capital assets, net of related debt	(13,688,344)	8,928,859	(4,759,485)
Restricted Net assets:			
Expendable:			
Debt Service	466,275	2,423,686	2,889,961
Economic development	8,297,382		8,297,382
Unrestricted net assets	<u>4,084,616</u>	<u>3,352,245</u>	<u>7,436,861</u>
Total net assets	<u>\$ (840,070)</u>	<u>\$ 14,704,790</u>	<u>\$ 13,864,720</u>

See accompanying notes to the combined financial statements

CITY OF OLIVE BRANCH, MISSISSIPPI

Statement of Activities Year Ended September 30, 2003

	Program Revenues				Net (Expenses)Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities							
General government	\$ 2,685,836	\$ 744,578	\$ 147,122	\$ -	\$ (1,794,136)	\$ -	\$ (1,794,136)
Public safety	6,645,680	1,648,778	317,477	-	(4,679,426)	-	(4,679,426)
Public works	607,253	756,266	11,875	646,000	806,888	-	806,888
Culture and recreation	871,122	134,192	-	-	(736,931)	-	(736,931)
Economic development	606,798	-	-	-	(606,798)	-	(606,798)
Capital outlay	2,575,318	-	-	-	(2,575,318)	-	(2,575,318)
Debt service	1,052,335	-	-	-	(1,052,335)	-	(1,052,335)
Total governmental activities	<u>\$ 15,044,343</u>	<u>\$ 3,283,813</u>	<u>\$ 476,474</u>	<u>\$ 646,000</u>	<u>(10,638,056)</u>	<u>-</u>	<u>(10,638,056)</u>
Business-type activities							
Water and sewer system	\$ 3,562,298					(3,562,298)	(3,562,298)
Gas system	12,167,388					(12,167,388)	(12,167,388)
Total business - type activities	<u>15,729,686</u>					<u>(15,729,686)</u>	<u>(15,729,686)</u>
General revenues							
Operating revenue						18,322,478	18,322,478
Taxes					7,246,316	-	7,246,316
Licenses and permits							-
Intergovernmental					4,551,103		4,551,103
Fee in lieu of tax						358,238	358,238
Charges for services							-
General grants					336,177		336,177
Rents						124,933	124,933
Fines							-
Interest					101,793	102,085	203,878
Transfers other funds					1,345,784	(1,345,784)	-
Miscellaneous					320,876		320,876
Sale of assets						(6,189)	(6,189)
Contributed capital					705,930	51,342	757,272
Total general revenues, transfers and contributed capital					<u>14,607,979</u>	<u>17,607,103</u>	<u>32,215,083</u>
Change in net assets					3,969,923	1,877,418	5,847,341
Net assets-beginning of year as restated					(3,778,193)	13,201,819	9,423,626
Prior period adjustment					(1,031,800)	(374,447)	(1,406,247)
Net assets-end of year					<u>\$ (840,070)</u>	<u>\$ 14,704,790</u>	<u>\$ 13,864,720</u>

See accompanying notes to financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPI

Balance Sheet
Governmental Funds
September 30, 2003

	General Fund	Debt Service	\$9MM Improvement	Other Governmental Funds	Total Governmental Funds
Assets					
Cash in bank and on hand	\$ 2,432,442	\$ -	\$ -	\$ -	\$ 2,432,442
Accounts receivable	1,267,138	-	-	-	1,267,138
Intergovernmental receivables	496,313	-	-	-	496,313
Prepaid expenses	139,277	458,097	-	-	597,373
Due from other funds	1,013,513	-	-	-	1,013,513
Cash-restricted	461,911	715,104	8,104,554	453,571	9,735,140
Total assets	<u>\$ 5,810,593</u>	<u>\$ 1,173,200</u>	<u>\$ 8,104,554</u>	<u>\$ 453,571</u>	<u>\$ 15,541,919</u>
Liabilities					
Accounts payable	\$ 479,457	\$ 3,574	\$ 118,049	\$ 331,152	932,232
Accrued expenses	285,146	-	-	4,323	289,469
Accrued interest payable	-	28,169	-	-	28,169
Due to other funds	-	675,182	116,944	(309,724)	482,402
Deferred revenue	28,957	-	-	-	28,957
Warranty bonds	356,364	-	-	-	356,364
Total liabilities	<u>1,149,924</u>	<u>706,925</u>	<u>234,992</u>	<u>25,751</u>	<u>2,117,593</u>
Fund balances					
Reserved					
General	4,660,669				4,660,669
Construction	-	-	7,869,562	427,820	8,297,382
Debt		466,275	-	-	466,275
Federal equitable sharing		-	-	-	-
Grants		-	-	-	-
Unreserved		-	-	-	-
Total fund balances	<u>4,660,669</u>	<u>466,275</u>	<u>7,869,562</u>	<u>427,820</u>	<u>13,424,326</u>
Total liabilities and fund balances	<u>\$ 5,810,593</u>	<u>\$ 1,173,200</u>	<u>\$ 8,104,554</u>	<u>\$ 453,571</u>	<u>\$ 15,541,919</u>

See accompanying notes to financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPI

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets September 30, 2003

Total Fund Balance - Governmental Funds	\$ 13,424,326
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Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported in the funds. These assets consist of:

Land	2,545,577	
Buildings and improvements	3,677,181	
Equipment	5,382,161	
CIP	2,543,987	
Infrastructure	474,226	
Accumulated depreciation	<u>(4,463,097)</u>	10,160,035

Some liabilities are not due and payable in the current period and therefore
are not reported in the funds. Those liabilities consist of:

Notes payable	(414,501)	
Accrued expenses	(161,552)	
General obligation and revenue bonds	(21,691,800)	
Capital leases payable	(1,645,489)	
Compensated absences	<u>(511,089)</u>	<u>(24,424,431)</u>

Net Assets of Governmental Activities	<u><u>\$ (840,070)</u></u>
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See accompanying notes to financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPI

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds Year Ended September 30, 2003

	General Fund	Debt Service	\$9MM Improvement	Other Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 6,008,714	\$ 1,237,603	\$ -	\$ -	\$ 7,246,316
Intergovernmental	4,551,103	-	-	-	4,551,103
Charges for services	3,283,813	-	-	-	3,283,813
Interest	33,727	27,742	30,913	9,411	101,793
Grant revenue	1,122,474	-	-	336,177	1,458,651
Miscellaneous	320,752	124	-	-	320,876
Total revenues	<u>15,320,583</u>	<u>1,265,469</u>	<u>30,913</u>	<u>345,588</u>	<u>16,962,553</u>
Expenditures					
General government	2,956,295	-	-	-	2,956,295
Public safety	6,842,417	-	-	-	6,842,417
Public works	3,099,322	-	-	-	3,099,322
Culture and recreation	817,792	-	-	-	817,792
Economic development	669,004	-	-	-	669,004
Capital outlay	-	-	1,042,231	1,533,088	2,575,318
Debt service	1,040,941	3,845,107	61,151	37	4,947,235
Total expenditures	<u>15,425,771</u>	<u>3,845,107</u>	<u>1,103,382</u>	<u>1,533,125</u>	<u>21,907,384</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(105,188)</u>	<u>(2,579,638)</u>	<u>(1,072,468)</u>	<u>(1,187,537)</u>	<u>(4,944,831)</u>
Other financing sources (uses)					
Interfund transfers other funds	1,735,816	(378,015)	(156,061)	144,044	1,345,784
Interfund transfers in general funds	-	92,077	122,934	24,842	239,853
Interfund transfers out general funds	(87,050)	(636)	(24,842)	(127,325)	(239,853)
Bond proceeds	-	2,290,000	9,000,000	-	11,290,000
Lease proceeds	897,129	-	-	-	897,129
Total other financing sources (uses)	<u>2,545,896</u>	<u>2,003,425</u>	<u>8,942,030</u>	<u>41,561</u>	<u>13,532,913</u>
Income before capital contributions	2,440,708	(576,213)	7,869,562	(1,145,976)	8,588,082
Capital contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>81,704</u>	<u>81,704</u>
Net change in fund balances	2,440,708	(576,213)	7,869,562	(1,064,272)	8,669,785
Fund balance - beginning of year	3,251,761	1,042,488	-	723,331	5,017,580
Prior period adjustment	(1,031,800)	-	-	768,761	(263,039)
Fund balance - end of year	<u>\$ 4,660,669</u>	<u>\$ 466,275</u>	<u>\$ 7,869,562</u>	<u>\$ 427,820</u>	<u>\$ 13,424,326</u>

See accompanying notes to financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPI

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended September 30, 2003

Net Change in Fund Balances-Total Governmental Funds	\$ 8,669,785
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Amounts reported for governmental activities in the statement of activities
are different because:

Capital Outlay	3,682,962
Contributions	624,226
Depreciation expense	(676,205)
Debt proceeds less principal pmts	(8,130,677)
Accrued Interest Expense	(161,552)
Compensated absence	<u>(38,616)</u>

Change in net assets of governmental activities	<u><u>\$ 3,969,923</u></u>
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See accompanying notes to financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPI

Statement of Net Assets
 Proprietary Funds
 September 30, 2003

	Water & Sewer	Natural Gas	Totals
Assets			
Current assets			
Cash in bank and on hand	2,240,369	-	2,240,369
Accounts receivable(net of allowance for doubtful accounts)	913,405	1,012,756	1,926,162
Prepaid expenses	133,204	25,815	159,019
Due from other funds	615,909	-	615,909
Interest receivable	71,055	81,813	152,868
Total current assets	3,973,942	1,120,384	5,094,327
Restricted assets:			
Cash	1,910,295	513,390	2,423,686
Customer deposits	288,018	540,800	828,818
Total restricted assets	2,198,314	1,054,190	3,252,504
Other assets			
Bond issue cost (net)	421,020	111,518	532,538
Loans receivable	102,365	312,136	414,501
Total other assets	523,385	423,654	947,038
Net Fixed Assets	27,743,026	10,056,195	37,799,221
Total assets	\$ 34,438,667	\$ 12,654,422	\$ 47,093,090

Continued

CITY OF OLIVE BRANCH, MISSISSIPPI

Statement of Net Assets

Proprietary Funds

September 30, 2003

	Water & Sewer	Natural Gas	Totals
Liabilities			
Current liabilities			
Accounts payable	420,282	473,806	894,087
Accrued expenses	88,990	135,580	224,570
Due to other funds	-	1,147,020	1,147,020
Capital lease payable-current	159,110	98,540	257,650
General obligation bonds payable	293,007	103,945	396,952
Notes payable-current	161,550	-	161,550
Total current liabilities	1,122,939	1,958,890	3,081,829
Current liabilities payable from restricted assets			
Customer deposits	288,018	540,800	828,818
Revenue bonds payable	755,000	275,000	1,030,000
Accrued interest payable	282,071	141,372	423,442
Total current liabilities payable from restricted assets	1,325,089	957,171	2,282,261
Long-term liabilities			
Capital lease payable	197,483	124,061	321,544
General obligation bonds payable	2,602,639	1,082,629	3,685,268
Notes payable	3,467,027	-	3,467,027
Revenue bonds payable	15,890,000	4,090,000	19,980,000
Deferred loss on early retirement of debt	(246,954)	(182,675)	(429,629)
Total long-term liabilities	21,910,194	5,114,015	27,024,210
Total liabilities	24,358,223	8,030,077	32,388,299
Net Assets			
Contributed Capital	1,626,865	145,904	1,772,769
Retained earnings	8,453,580	4,478,441	12,932,021
Total net assets	10,080,445	4,624,346	14,704,790
Total liabilities and net assets	\$ 34,438,667	\$ 12,654,422	\$ 47,093,090

Concluded

See accompanying notes to financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPI

Statement of Revenues, Expenses, and Changes in Net Assets Proprietary Funds Year Ended September 30, 2003

	Water & Sewer	Natural Gas	Total
Operating revenues			
Sales	\$ 4,466,279	\$ 12,426,239	\$ 16,892,518
Tap fees	762,233	326,003	1,088,236
Miscellaneous	126,316	215,408	341,724
Total operating revenues	<u>5,354,828</u>	<u>12,967,650</u>	<u>18,322,478</u>
Operating expenses			
Personnel	653,349	859,489	1,512,838
Supplies	274,273	268,215	542,488
Other	709,945	205,406	915,351
Depreciation	742,170	363,185	1,105,355
Amortization	61,713	34,152	95,865
Gas purchases	-	10,114,243	10,114,243
Total operating expenses	<u>2,441,450</u>	<u>11,844,690</u>	<u>14,286,140</u>
Operating income	<u>2,913,377</u>	<u>1,122,960</u>	<u>4,036,338</u>
Non-operating revenues (expenses)			
Contributed capital	51,342	-	51,342
Rent	124,933	-	124,933
Interest revenue	76,393	25,692	102,085
Interfund transfers	(244,596)	(1,101,188)	(1,345,784)
Interest expense	(1,120,846)	(322,698)	(1,443,544)
Fee in lieu of tax	325,997	32,241	358,238
Loss on disposal of assets	-	(6,189)	(6,189)
Total non-operating revenues (expenses)	<u>(786,777)</u>	<u>(1,372,142)</u>	<u>(2,158,918)</u>
Change in net assets	2,126,601	(249,181)	1,877,420
Net assets - beginning of year	6,574,518	4,854,532	11,429,050
Prior period adjustment	<u>(247,538)</u>	<u>(126,909)</u>	<u>(374,447)</u>
Net assets - end of year	<u>\$ 8,453,581</u>	<u>\$ 4,478,442</u>	<u>\$ 12,932,023</u>

See accompanying notes to financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPI

Statement of Cash Flows Proprietary Funds Year Ended September 30, 2003

	Water & Sewer	Natural Gas	Total
Cash flows from operating activities			
Cash received from customers	\$ 4,992,908	\$ 12,704,022	\$ 17,696,929
Cash payments for goods and services	(816,110)	(10,552,539)	(11,368,649)
Cash payments to employees	(653,349)	(859,489)	(1,512,838)
Net cash provided by operating activities	<u>3,523,448</u>	<u>1,291,994</u>	<u>4,815,442</u>
Cash flows from noncapital financing activities			
Deferred loss on retirement of bebt	(134,917)	30,258	(104,659)
Fee in lieu of tax	325,997	32,241	358,238
Transfers from other funds	<u>1,127,422</u>	<u>(760,440)</u>	<u>366,982</u>
Net cash provided by noncapital financing activities	<u>1,318,502</u>	<u>(697,941)</u>	<u>620,561</u>
Cash flows from capital and related financing activities			
Contributed capital	51,342	-	-
Loss on disposal of assets	-	(6,189)	(6,189)
Payments for capital acquisitions	(3,871,795)	(463,747)	(4,335,542)
Debt proceeds	2,920,545	335,661	3,256,207
Principal payments on debt	(3,503,129)	(441,461)	(3,944,590)
Interest payments on debt	(1,025,423)	(295,242)	(1,320,664)
Net cash provided by capital and related financing activities	<u>(5,428,459)</u>	<u>(870,978)</u>	<u>(6,350,779)</u>
Cash flows from investing activities			
Rent	124,933	-	124,933
Receipts of interest	<u>76,393</u>	<u>25,692</u>	<u>102,085</u>
Net cash flows from investing activities	<u>201,326</u>	<u>25,692</u>	<u>227,018</u>
Net decrease in cash and cash equivalents	(385,184)	(251,232)	(687,758)
Cash and cash equivalents-beginning of year	<u>4,823,866</u>	<u>1,305,422</u>	<u>6,129,288</u>
Cash and cash equivalents-end of year	<u>\$ 4,438,682</u>	<u>\$ 1,054,190</u>	<u>\$ 5,441,530</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	<u>\$ 2,913,377</u>	<u>\$ 1,122,960</u>	<u>\$ 4,036,338</u>
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	742,170	363,185	1,105,355
Amortization	61,713	34,152	95,865
(Increase) decrease in customer receivables	(385,021)	(315,141)	(700,163)
(Increase) decrease in other receivables			-
Increase (decrease) in customer deposits	23,101	51,513	74,614
Increase (decrease) in accounts payable	156,768	17,442	174,209
Increase (decrease) in accrued expenses	11,340	17,884	29,224
Total adjustments	<u>610,071</u>	<u>169,034</u>	<u>779,104</u>
Net cash provided by operating activities	<u>\$ 3,523,448</u>	<u>\$ 1,291,994</u>	<u>\$ 4,815,442</u>

See accompanying notes to financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements

For the Year Ended September 30, 2003

(A) Summary of Significant Accounting Policies

The City of Olive Branch, Mississippi was incorporated May 1, 1874, and chartered March 6, 1888. The City operates under a Board of Aldermen-Mayor form of government and provides the following services; public safety (police and fire), streets, sanitation, culture, recreation, public improvements, planning and zoning, and general administrative services.

The financial statements of the City of Olive Branch have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's most significant accounting policies are described below.

Reporting Entity:

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Generally Accepted Accounting Principles. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the City's reporting entity.

Included within the reporting entity:

Olive Branch Public Improvement Corporation

The aldermen of the City of Olive Branch also serve on the Board of Directors of the Olive Branch Public Improvement Corporation. The purposes of the Corporation are to acquire and hold title to real property; to enter into leases and to lease real property for the purpose of constructing or acquiring public buildings and facilities.

Encumbrance Accounting:

The City of Olive Branch does not use the encumbrance method of accounting

Fund Accounting

The City uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. An account group, on the other hand, is a financial reporting device designed to

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements

For the Year Ended September 30, 2003

provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate "fund types."

Governmental funds are used to account for all or most of a government's general activities including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government which are not required legally, or by sound financial management, to be accounted for in another fund.

Proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration.

The City applies all Governmental Accounting Standards Board (GASB) pronouncements as well as the Financial Accounting Standards Board pronouncements unless those pronouncements conflict with or contradict GASB pronouncements.

Basis of Accounting:

Government-Wide Financial Statements

The statement of net assets and the statement of activities display information about the City, the primary government, as a whole. These statements distinguish between activities that are governmental and those that are considered business-type activities. Internal service fund activity is eliminated to avoid "doubling up" revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between expenses and program revenues for each segment of the business-type activities of the City and for each program of the governmental activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the City.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The new assets restricted for other purposes result from special revenue funds and the restrictions on their net asset use.

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements

For the Year Ended September 30, 2003

Fund Financial Statements

Fund financial statements report detailed information about the City. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Governmental Funds

All governmental funds are accounted for using modified accrual basis of accounting and the current financial resources measurement focus. Under this basis revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenue Recognition

In applying the susceptible to accrual concept under the modified accrual basis, the following revenue sources are deemed both measurable and available (i.e., collectible within the current year or within one month of year-end and available to pay obligations of the current period). This includes investment earnings, property taxes, franchise taxes, and fines and forfeitures and state-levied locally shared taxes. Reimbursements due for federally funded projects are accrued as revenue at the time the expenditures are made, or when received in advance, deferred until expenditures are made.

Other revenues, including licenses and permits, certain charges for service, and miscellaneous revenues, are recorded as revenue when received in cash because they are generally not measurable until actually received.

Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements

- 1. Prior to September 1, the Mayor submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following October 1st. The operating budget includes proposed expenditures and the means of financing them.*
- 2. A public hearing is conducted at City Hall.*
- 3. Prior to October 1, the budget is legally enacted through passage of ordinance.*
- 4. The Mayor is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Board of Aldermen.*
- 5. The actual receipts and disbursements are accumulated each month and compared to the budgeted amounts and reviewed by the Mayor and Board of Aldermen. Any revisions on the budget during the year are approved by the Board of Aldermen*

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements

For the Year Ended September 30, 2003

Expenditure Recognition

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related fund liability is incurred. However, principal and interest on general long-term debt which has not matured are recognized when paid. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Proprietary Funds

All proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The economic resource measurement focus concerns determining costs as a means of maintaining the capital investment and management control. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds. Unbilled utility receivables are recorded at year end. Proprietary fund types have selected to consistently not follow Financial Accounting Standards Board pronouncements issued subsequent to November 30, 1989 as permitted under Governmental Accounting Standards Board Statement No. 20. Operating revenues and expenses for proprietary funds are those that result from providing utilities to customers. It also includes all revenue and expenses not related to capital and related financing, noncapital financing, or investing activities.

Cash and Investments

For the purpose of the Statement of Net Assets, “cash in bank and on hand” includes all demand, savings accounts, and certificates of deposits of the City. For the purpose of the proprietary fund Statement of Cash Flows, “cash and cash equivalents” include all demand and savings accounts, and certificates of deposit or short-term investments with an original maturity of three months or less.

Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds with governmental activities are eliminated in the Statement of Net Assets.

Receivables

In the government –wide statements, receivables consist of all revenue earned at year-end and not yet received. Allowances for uncollectible accounts receivable are based upon estimates by management. Major receivable balances for the governmental activities include sales and use taxes, franchise taxes, grants, police fines, and ambulance fees. Business-type activities report utilities and interest earnings as their major receivables.

Interfund Transfers

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements

For the Year Ended September 30, 2003

Property Tax

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on January 1 and payable on or before February 1. DeSoto County bills and collects the City's property taxes and monthly remits the taxes to the City.

Inventories

The City does not stockpile large quantities of material and supplies, therefore, inventories are not considered in the financial statements.

Capital Assets and Depreciation

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets are reported in the governmental activities column of the governments-wide statement of net assets. Capital assets used by proprietary funds are reported in both the business-type activities column of the government-wide statement of net assets and in the individual proprietary funds.

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the City as a whole. When purchased, such assets are recorded as expenditures in the governmental funds and capitalized (recorded and accounted for) in the General Capital Asset Account Group. Infrastructure such as streets, traffic signals and signs are capitalized. The valuation bases for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation bases for proprietary fund capital assets are the same as those used for the general capital assets. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

Equity Classifications

Government-wide Financial Statements:

Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings attributable to the acquisition, constructions or improvements of those assets.

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements

For the Year Ended September 30, 2003

Restricted net assets – Consists of net assets with constraints placed on the use either by external groups such as creditors, grantors, contributors, or laws or regulation of other governments; or law through constitutional provisions or enabling legislation.

Unrestricted net assets – All other net assets not meeting the definition of “restricted” or “invested” in capital assets, net of related debt.

Fund Financial Statements:

Governmental fund equity is classified as fund balance. Fund balance is classified as reserved or unreserved, with unreserved classified as designated and undesignated.

Unreserved fund balance represents the amount available for budgeting future operations. Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose.

Compensated Absences

The City’s policies regarding vacation time permit employees to accumulate earned but unused vacation leave. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. The current portion of this debt is estimated based on historical trends. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while the proprietary funds report the liability as it is incurred.

Net Assets

Net assets is the difference between assets and liabilities. Net assets invested in capital assets, net of related debt are capital assets, less accumulated depreciation and any outstanding debt related to the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by City legislation or external restrictions by other governments, creditors or grantors.

(B) Cash and Investments:

The collateral for public entities’ deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the entity’s funds are protected though a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

For the purpose of cash flows, the City of Olive Branch considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements

For the Year Ended September 30, 2003

(C) Intergovernmental Receivables

Intergovernmental receivables consist of the following:

	<i>General Fund</i>
<i>County pro rata</i>	<i>\$ 141,715</i>
<i>Ad valorem</i>	<i><u>354,598</u></i>
<i>Totals</i>	<i><u><u>\$ 496,313</u></u></i>

(D) Loans Receivables

The City of Olive Branch enterprise funds made a non-interest bearing loan to the general fund in the amount of \$414,501. Of the \$414,501, the natural gas distribution fund loaned \$312,136 and the water and sewer fund loaned \$102,365. This loan is recorded as a liability in the general long-term debt account group and as an asset on the gas and water fund balance sheets.

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements

For the Year Ended September 30, 2003

(E)Capital Assets

The following is a summary of the changes in capital assets for the fiscal year ended September 30, 2003:

	Balance at 9/30/2002	Additions	Deletions	Adjustments	Balance at 9/30/2003
Governmental Activities:					
Capital assets, not being depreciated:					
Land	\$ 2,395,577	\$ 150,000	\$ -	\$ -	\$ 2,545,577
Construction in progress	164,640	2,379,347	-	-	2,543,987
Total capital assets, not being depreciated:	2,560,217	2,529,347	-	-	5,089,564
Capital assets, being depreciated:					
Buildings and improvements	3,596,485	80,696	-	-	3,677,181
Equipment	4,159,242	1,222,919	-	-	5,382,161
Infrastructure	474,226	474,226	-	-	474,226
Total capital assets, being depreciated:	7,755,727	1,777,841	-	-	9,533,568
Less accumulated depreciation for:					
Buildings	247,896	25,597	-	-	273,493
Improvements other than buildings	821,986	107,510	-	-	929,496
Equipment	2,717,010	543,098	-	-	3,260,108
Total accumulated depreciation	3,786,892	676,205	-	-	4,463,097
Total capital assets, being depreciated, net	3,968,835	1,101,636	-	-	5,070,471
Governmental activities capital assets, net	\$ 6,529,052	\$ 3,630,983	\$ -	\$ -	\$ 10,160,035
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 216,635	\$ 18,133	\$ -	\$ 354,917	\$ 589,685
Construction in progress	1,987,066	3,358,408	-	-	5,345,474
Total capital assets, not being depreciated:	2,203,701	3,376,541	-	354,917	5,935,159
Capital assets, being depreciated:					
Buildings	356,458	-	-	(206,458)	150,000
Improvements other than buildings	-	6,900	-	-	6,900
Equipment	2,469,884	437,465	5,537	(1,456,233)	1,445,579
Infrastructure	37,819,455	520,171	-	-	38,339,626
Total capital assets, being depreciated:	40,645,797	964,536	5,537	(1,662,691)	39,942,105
Less accumulated depreciation for:					
Buildings	98,330	3,000	-	(77,330)	24,000
Improvements other than buildings	-	115	-	-	115
Equipment	1,427,334	111,258	-	(855,996)	682,596
Infrastructure	6,380,350	990,982	-	-	7,371,332
Total accumulated depreciation	7,906,014	1,105,355	-	(933,326)	8,078,043
Total capital assets, being depreciated, net	32,739,783	(140,819)	5,537	(729,365)	31,864,062
Business-type activities capital assets, net	\$ 34,943,484	\$ 3,235,722	\$ 5,537	\$ (374,448)	\$ 37,799,221

No interest was capitalized on constructed or in - progress fixed assets during the year due to immateriality.

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements

For the Year Ended September 30, 2003

Adjustments in summary of Changes in Capital Assets

As a result of GASB 34, assets that are less than \$5,000 no longer have to be capitalized. These assets were removed from the books, which resulted in the adjustments to capital assets and accumulated depreciation.

Commitments under construction contracts at September 30, 2003 are summarized as follows:

<i>Project</i>	<i>Contract Amount</i>	<i>Remaining Balance</i>	<i>Fund</i>
<i>2001 Sewer System Improvements Phase IIB</i>	<i>\$ 1,005,901</i>	<i>\$ 215,557</i>	<i>Enterprise</i>
<i>2002 Sewer System Improvements</i>	<i>466,427</i>	<i>102,279</i>	<i>Enterprise</i>
<i>DWSI Water Project Chateau Ridge Improvements</i>	<i>723,168</i>	<i>24,306</i>	<i>Enterprise</i>
<i>Railroad Avenue Extension</i>	<i>119,076</i>	<i>115,739</i>	<i>General</i>
<i>Construction of New City Hall</i>	<i>3,577,000</i>	<i>3,487,013</i>	<i>General</i>
<i>Olive Branch Soccer Park</i>	<i>1,655,380</i>	<i>710,886</i>	<i>General</i>
<i>Dresden Street Drainage Project</i>	<i>34,721</i>	<i>9,532</i>	<i>General</i>

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements

For the Year Ended September 30, 2003

(F) Long Term Debt

General obligation bonds. General obligation bonds are direct obligations and pledge full faith and credit of the City. General obligation bonds currently outstanding are as follows:

					Amounts	
Description	Interest Rate	Issue Date	Maturity Date	Issued	Outstanding	
General Long Term						
1992	4.40%	10/1/1992	10/1/2007	\$ 1,200,000	\$ 515,000	
	6.00%					
1996	5.20%	4/1/1996	4/1/2011	290,000	185,000	
	7.25%					
1998	4.30%	6/1/1998	6/1/2013	1,600,000	1,190,000	
	6.00%					
1999	4.38%	8/1/1999	8/1/2019	1,635,000	1,425,000	
	6.25%					
2001	5.50%	2/23/2001	2/1/2006	210,000	132,000	
2001	2.50%	12/20/2001	10/1/2009	508,200	438,900	
	4.00%					
2001	2.50%	12/20/2001	9/1/2014	930,000	850,000	
	4.00%					
2002	4.10%	2/5/2002	3/1/2022	2,500,000	2,425,000	
	5.75%					
2003	1.10%	11/1/2003	5/1/2011	2,290,000	2,290,000	
	3.00%					
2003	3.00%	6/1/2003	6/1/2023	9,000,000	9,000,000	
	4.13%					
				20,163,200	18,450,900	
Enterprise Funds						
Refunding -1993	2.70%	10/1/1993	11/1/2009	1,560,000	-	
	5.20%					
MBIA - 1995	0.00%	7/5/1995	9/1/2015	750,000	450,000	
Gas Project - 1999	4.10%	9/1/1998	9/1/2013	1,200,000	890,000	
	5.75%					
MBIA - 1998	2.00%	11/1/1998	11/1/2013	2,000,000	1,850,881	
2001	2.50%	12/20/2001	10/1/2009	1,101,100	891,339	
	4.00%					
				5,510,000	4,082,220	
Total				\$ 25,673,200	\$ 22,533,120	

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements

For the Year Ended September 30, 2003

Revenue Bonds. The City also issues revenue bonds where the City pledges income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at year end are as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amounts	
				Issued	Outstanding
Enterprise Funds					
Natural Gas System	4.00%	12/1/1995	3/1/2009	2,995,000	1,625,000
Refunding - 1995	5.40%				
Combined Water & Sewer - 1997	5.00%	7/1/1997	3/1/2017	3,000,000	2,525,000
	6.50%				
Natural Gas System 1999	4.90%	8/1/1999	9/1/2024	3,000,000	2,740,000
	6.75%				
2001 General Fund	5.68%	8/6/2002	5/1/2017	94,000	88,900
2000 General Fund	5.10%	4/13/2000	10/1/2014	3,500,000	3,152,000
	5.80%				
Combined Water & Sewer - 2000	5.25%	8/1/2000	9/1/2020	3,750,000	3,515,000
	7.50%				
Combined Water & Sewer 2001	4.25%	2/1/2001	2/1/2026	2,500,000	2,405,000
	6.00%				
2001A Refunding	2.60%				
	4.40%	12/1/2001	3/1/2012	1,905,000	1,730,000
Combined Water & Sewer 2002A	4.25%	2/1/2002	3/1/2022	4,500,000	4,370,000
	6.00%				
Combined Water & Sewer - 2003	1.10%	7/1/2003	3/1/2014	\$ 2,100,000	\$ 2,100,000
	3.45%				
				\$ 27,344,000	\$ 24,250,900

In prior years, the City of Olive Branch has defeased or partially defeased two bond issues by creating separate irrevocable trust funds. New debt was issued and the proceeds were used to purchase U.S. government securities that were placed in trust funds. The investments and fixed earnings from the investments serviced the defeased debt until redemption, which took place on March 1, 2001, in the amount of \$2,070,000 for the 1990 Natural Gas System Revenue Bonds. One defeasance resulted in a deferred loss of \$409,668, which is being amortized over the remaining term of the bonds. For financial reporting purposes, the defeased debt has been removed as a liability from the City's proprietary funds. As of September 30, 2003, the amount of the unamortized balance of the deferred loss is \$208,863.

CITY OF OLIVE BRANCH, MISSISSIPPI

*Notes to Financial Statements
For the Year Ended September 30, 2003*

Loans. The City also uses loans to finance its projects.

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Issued</u>	<u>Amounts Outstanding</u>
<i>Enterprise Funds</i>					
<i>MS Dept. of Environmental Quality SRF Loan</i>	4.50%	08/14/1998	11/15/2019	2,068,909	1,796,548
<i>DWSIRLF Loan</i>	3.00%	10/01/2001	07/01/2021	<u>1,940,384</u>	<u>1,832,029</u>
				<u>\$ 4,009,293</u>	<u>\$ 3,628,577</u>

Annual requirements to retire debt

The aggregate maturities of general obligation, revenue bonds, loans at September 30, 2003 are as follows:

<u>Year Ending September 30</u>	<u>General Long-Term Debt</u>	<u>Enterprise Fund Debt</u>
2004	\$ 2,150,473	\$ 2,808,298
2005	2,156,605	2,786,761
2006	2,168,979	2,800,214
2007	2,120,934	2,786,970
2008	2,123,571	2,783,557
2009-2013	8,941,820	12,354,981
2014-2018	5,780,147	8,425,245
2019-2023	4,307,069	4,703,222
2024-2026	<u>-</u>	<u>788,393</u>
<i>Total</i>	29,749,598	40,237,641
<i>Less: Interest</i>	<u>(8,057,798)</u>	<u>(11,516,844)</u>
<i>Principal</i>	<u>\$ 21,691,800</u>	<u>\$ 28,720,797</u>

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements

For the Year Ended September 30, 2003

Changes in long-term debt for the year ended September 30, 2003 were as follows:

	Balance at 9/30/2002	Additions	Deletions	Balance at 9/30/2003	Amounts Due Within One Year
<i>Governmental Activities:</i>					
General obligation bonds payable	\$ 10,060,200	\$ 11,290,000	\$ 2,899,300	\$ 18,450,900	\$ 1,089,650
Revenue bonds payable	3,425,000	-	184,100	3,240,900	194,300
Leases Payable	1,246,412	897,129	498,052	1,645,489	572,459
Notes Payable	889,501	-	475,000	414,501	-
Compensated absences	472,473	38,616	-	511,089	-
Governmental activities long-term liabilities	<u>\$ 16,093,586</u>	<u>\$ 12,225,745</u>	<u>\$ 4,056,452</u>	<u>\$ 24,262,879</u>	<u>\$ 1,856,409</u>
<i>Business-type activities:</i>					
General obligation bonds payable	\$ 4,479,300	\$ -	\$ 397,080	\$ 4,082,220	\$ 396,952
Revenue bonds payable	21,935,000	2,100,000	3,025,000	21,010,000	1,030,000
Leases payable	545,213	270,804	236,823	579,194	257,650
Notes payable	3,784,952	-	156,375	3,628,577	161,550
Compensated absences	-	-	-	-	-
Business-type activities long-term liabilities	<u>\$ 30,744,465</u>	<u>\$ 2,370,804</u>	<u>\$ 3,815,278</u>	<u>\$ 29,299,991</u>	<u>\$ 1,846,152</u>

On June 1, 2003 the City of Olive Branch issued \$2,290,000 in General Obligation Refunding Bonds with an average interest rate of 3.608 percent to refund the Series 1995 Refunded Bonds with an average interest rate of 5.642862 percent and the Series 1996 Refunded Bonds with an average interest rate of 4.403 percent. The refunded bonds total \$2,185,000. Net proceeds of the new issuance of \$2,290,000 (after payment of issuance costs and underwriters fees totaling \$95,000) plus an additional \$16,767 from prior debt service funds were used to fully refund the 1995 and 1996 Refunded Bonds, which have been removed from the City's government-wide financial statements. As a result, the City reduced its total debt service requirements by \$157,836, which resulted in an economic gain of \$86,723.

On July 1, 2003 the City issued \$2,100,000 Combined Water and Sewer System Revenue Refunding Bonds, Series 2003 with an average interest rate of 3% to advance refund Combined Water and Sewer System Revenue Bonds, Series 1994 in the amount of \$2,090,000. The Series 1994 Bonds mature March 1, 2014. The net proceeds of the Series 2003 Refunding Bonds (after payment of issuance costs and underwriters fees totaling \$95,051) were used to purchase US government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bonds are called on March 1, 2004. The advance refunding met the requirements of an in-substance debt defeasance and the Series 1994 Bonds were removed from the City's Water and Sewer Fund. As a result of the advance refunding, the City reduced its total debt service requirements by \$629,527, which resulted in an economic gain of \$550,295.

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements

For the Year Ended September 30, 2003

(G)Operating Leases

The City of Olive Branch leases office space under various operating lease agreements. The future minimum lease payments for these leases are as follows:

<u><i>Year Ending September 30,</i></u>	<u><i>Amount</i></u>
2004	\$21,560
2005	16,800
2006	<u>7,760</u>
Total	<u>\$46,120</u>

(H)Defined Benefit Pension Plan

Plan Description. The City of Olive Branch contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS39201-1005 or by calling (601) 359-3589 or 1-800-444 PERS.

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary and the City of Olive Branch is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Olive Branch's contributions to PERS for the year ending September 30, 2003, 2002, and 2001 were \$703,568, \$632,137 and \$577,100 respectively, equal to the required contributions for each year.

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements

For the Year Ended September 30, 2003

(I) Interfund Transactions and Balances

The following is a summary of interfund transactions and balances:

A. Due From/ To Other Funds	<u>Due From</u>	<u>Due To</u>
Major funds:		
General fund	\$ 1,406,358	\$ 392,846
Debt service	188,369	863,551
9MM G/O	376,849	493,792
Water & Sewer	4,240,295	3,624,386
Gas	2,575,060	3,722,080
Non - major funds	<u>713,335</u>	<u>403,611</u>
Total Funds	<u>\$ 9,500,266</u>	<u>\$ 9,500,266</u>
B. Transfers In/Out	<u>Transfers In</u>	<u>Transfers Out</u>
Major funds:		
General fund	\$ -	\$ 87,049
Debt service	92,077	1,365
9MM G/O	122,934	180,903
Water & Sewer	370,816	784
Non - major funds	<u>24,842</u>	<u>340,568</u>
Total Funds	<u>\$ 610,669</u>	<u>\$ 610,669</u>

(J) Risk Management

The city is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. This exposure is covered by purchase of commercial insurance.

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements

For the Year Ended September 30, 2003

(K) Leases

Capital Leases

Future minimum lease payments and the net present value of these minimum lease payments as of September 30, 2003 were as follows:

<i>Year Ending September 30</i>	<i>General Long-Term Debt</i>	<i>Natural Gas Fund</i>	<i>Water and Sewer Fund</i>
2004	\$ 632,533	\$ 104,528	\$ 169,982
2005	589,587	92,757	116,758
2006	256,281	34,343	52,533
2007	112,165	-	38,418
2008	89,472	-	-
<i>Thereafter</i>	<u>113,787</u>	<u>-</u>	<u>-</u>
<i>Total Minimum Lease Payments</i>	1,793,825	231,628	377,691
<i>Less: Interest</i>	<u>(148,336)</u>	<u>(9,027)</u>	<u>(21,098)</u>
<i>Present Value of Minimum Lease Payments</i>	<u>\$ 1,645,489</u>	<u>\$ 222,601</u>	<u>\$ 356,593</u>

Assets acquired through capital leases are recorded at the present value of the future minimum lease payments are as follows:

	<i>General Fixed Assets</i>	<i>Gas Fund</i>	<i>Water Fund</i>
<i>Equipment and Machinery</i>	\$ 3,523,707	\$ 520,747	\$ 840,197
<i>Buildings</i>	600,000	-	-
<i>Less: Accumulated Depreciation</i>	<u>-</u>	<u>(363,468)</u>	<u>(346,192)</u>
<i>Total</i>	<u>\$ 4,123,707</u>	<u>\$ 157,279</u>	<u>\$ 494,005</u>

CITY OF OLIVE BRANCH, MISSISSIPPI

Notes to Financial Statements

For the Year Ended September 30, 2003

(L) Prior Period Adjustment

General fund

Bond proceeds of \$1,540,000 from the 2001A General Obligation Refunding bonds were incorrectly recorded in the general fund in the previous year, resulting in an over statement of \$1,031,800 reported in the general fund. This portion of the proceeds were used to refund Water and Gas fund bonds, therefore a prior period adjustment is required to record this portion of the bonds as debt of the Water and Gas funds.

Other governmental funds

\$768,761 was incorrectly recorded as capital outlay in the prior year. This was actually a partial refund of the security deposits reported on the balance sheet of the Capital Projects funds. These security deposits were for the construction of infrastructure to the Flying J Travel Plaza in the amount of \$128,717 and of the Wal-Mart Store in the amount of \$640,044.

(M) Implementation of GASB 34

In 2003, the City implemented GASB Statement No. 34 “Basic Financial Statements-Management’s Discussion and Analysis-for State and Local Governments.” Statement No. 34 established new financial reporting requirements for all state and local governments and consist of the following:

Management’s discussion and analysis

Basic Financial Statements

Government –Wide fiancial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;

Fund financial statements, consisting of a series of statements that focus on a government’s major Governmental funds and enterprise funds;

Notes to the financial statements;

Required supplementary information, which requires budgetary comparison schedules to be presented.

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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF OLIVE BRANCH, MISSISSIPPI

Budgetary Comparison Schedule September 30, 2003

	Budgeted Amounts		Actual Amounts Budgetary Basis	Variance with Final Budget
	Original	Final		
Revenues				
Taxes	\$ 6,993,211	\$ 6,993,211	\$ 6,110,574	(882,637)
Intergovernmental	4,042,226	4,448,855	4,202,253	(246,602)
Charges for services	2,064,975	2,994,148	3,123,491	129,343
Interest	50,000	70,877	33,727	(37,150)
Grant revenue	377,107	446,569	1,140,111	693,542
Miscellaneous	220,400	290,346	314,452	24,106
Total revenues	<u>13,747,919</u>	<u>15,244,006</u>	<u>14,924,609</u>	<u>(319,397)</u>
Expenditures				
General government	2,178,529	2,973,667	2,944,080	29,587
Public safety	6,148,176	7,159,511	6,184,535	974,976
Public works	2,599,870	3,110,809	2,903,230	207,579
Culture and recreation	719,544	892,136	786,144	105,992
Economic development	629,214	641,206	599,061	42,145
Debt service	<u>2,839,982</u>	<u>2,121,429</u>	<u>1,027,785</u>	<u>1,093,644</u>
Total expenditures	<u>15,115,315</u>	<u>16,898,758</u>	<u>14,444,834</u>	<u>2,453,924</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,367,396)</u>	<u>(1,654,752)</u>	<u>479,775</u>	<u>2,134,527</u>
Other financing sources (uses)				
Interfund transfers	1,272,592	1,271,206	1,648,767	377,561
Bond proceeds	-	-	-	-
Lease proceeds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources(uses)	<u>1,272,592</u>	<u>1,271,206</u>	<u>1,648,767</u>	<u>377,561</u>
Net changes in fund balances	<u>(94,804)</u>	<u>(383,546)</u>	<u>2,128,541</u>	<u>2,512,087</u>
Fund balance - beginning of year			<u>3,251,761</u>	
Fund balance - end of year			5,380,302	
Adjustments to conform with GAAP:				
Revenues			469,205	
Expenditures			(157,039)	
Prior period adjustment			<u>(1,031,800)</u>	
Fund balance - end of year(GAAP basis)			<u>\$ 4,660,668</u>	

See accompanying notes to financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPISchedule of Expenditures of Federal Awards
September 30, 2003

<u>Federal Grantor</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Federal Expenditure</u>
US Department of Justice	16.710	95-CF-WX-3796	83,881
US Department of Justice	16.710	2002-LBBX-3157	24,188
US Department of Justice	16.710	2000-SH-WX-0135	7,696
US Department of Justice	16.710	2001-SH-WX-0602	105,228
Department of Housing and Urban Development	14.219	1119-02-284-PF-01	<u>336,177</u>
			<u>\$557,170</u>

See accompanying notes to financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPI

Schedule of Property Tax Rates and Assessments Year Ended September 30, 2003

<u>Year</u>	<u>Millage Rate</u>	<u>Assessed Property Value</u>
2003	31.5	\$ 192,444,011
2001	25.5	179,286,323
2000	25.5	158,757,629
1999	25.5	141,061,602
1998	25.5	126,748,604
1997	25.5	98,883,822
1996	25.5	81,250,691
1995	25.5	69,391,164
1994	25.5	62,792,717
1993	25.5	56,350,531
1992	25.5	53,880,245
1991	25.5	20,012,893
1990	25.5	17,618,719
1989	30	13,219,511
1988	30	11,244,420
1987	30	8,379,634
1986	30	9,099,051
1985	30	8,370,366
1984	30	13,790,500

See accompanying notes to financial statements.

CITY OF OLIVE BRANCH, MISSISSIPPI

Schedule of Surety Bonds for Municipal Officials September 30, 2003

Name	Position	Company	Bond
Samuel Rikard	Mayor	Fidelity & Deposit Co. of Maryland	\$ 100,000
Judy Herrington	City Clerk	Fidelity & Deposit Co. of Maryland	50,000
Arthur Heun	Police Chief	Fidelity & Deposit Co. of Maryland	50,000
Public Employees			
Blanket Bond	Employees not required to have individual bonds.	Fidelity & Deposit Co. of Maryland	250,000
Dishonesty Bond	Police Officers	Fidelity & Deposit Co. of Maryland	1,250,000
Paula May	City Administrator	Fidelity & Deposit Co. of Maryland	50,000
Aubrey Coleman	Alderman	Fidelity & Deposit Co. of Maryland	100,000
George Collins	Alderman	Fidelity & Deposit Co. of Maryland	100,000
Richard Dlugach	Alderman	Fidelity & Deposit Co. of Maryland	100,000
Harold Henderson	Alderman	Fidelity & Deposit Co. of Maryland	100,000
Robert Marr	Alderman	Fidelity & Deposit Co. of Maryland	100,000
Steve Bigelow	Engineer	Fidelity & Deposit Co. of Maryland	50,000
Stephanie McKnatt	Controller	Fidelity & Deposit Co. of Maryland	50,000
Johnny Eason	Fire Chief	Fidelity & Deposit Co. of Maryland	50,000

See accompanying notes to financial statements.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Mayor and Board of Aldermen
City of Olive Branch, Mississippi

We have audited the general purpose financial statements of the City of Olive Branch, Mississippi as of and for the year ended, September 30, 2003 and have issued our report thereon dated February 27, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Olive Branch, Mississippi's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Olive Branch Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, and the Mississippi State Department of Audit and is not intended to be and should not be used by anyone other than these specified parties.

Williams, Pitts & Beard, PLLC
Williams, Pitts & Beard, PLLC
Certified Public Accountants
February 27, 2004

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Mayor and Board of Aldermen
City of Olive Branch
Olive Branch, Mississippi

Compliance

We have audited the compliance of the City of Olive Branch, Mississippi with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2003. The City of Olive Branch Mississippi's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Olive Branch Mississippi's management. Our responsibility is to express an opinion on the City of Olive Branch Mississippi's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Olive Branch Mississippi's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Olive Branch Mississippi's compliance with those requirements.

In our opinion, the City of Olive Branch, Mississippi complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2003.

Continued.....

Internal Control Over Compliance

The management of the City of Olive Branch Mississippi is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Olive Branch Mississippi's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Williams, Pitts & Beard, PLLC
Williams, Pitts & Beard, PLLC
Certified Public Accountants
February 27, 2004

**INDEPENDENT AUDITORS' REPORT ON THE CITY'S COMPLIANCE WITH THE
REQUIREMENTS OF THE STATE AUDIT DEPARTMENT, AS SET FORTH
IN THE MUNICIPAL COMPLIANCE QUESTIONNAIRE**

Mayor and Board of Aldermen
City of Olive Branch
Olive Branch, Mississippi

We have audited the financial statements of the City of Olive Branch, Mississippi for the year ended September 30, 2003, and issued our report thereon dated February 27, 2004. Our audit was made in accordance with generally accepted auditing standards, and accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The City of Olive Branch, Mississippi is in compliance with the requirements of the State Department of Audit, as set forth in the Municipal Compliance Questionnaire except as noted below.

This report is intended for the use of the City of Olive Branch and the State Department of Audit. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Williams, Pitts & Beard, PLLC
Williams, Pitts & Beard, PLLC
Certified Public Accountants
February 27, 2004

**CITY OF OLIVE BRANCH
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

Section 1: Summary of Auditors' Results

1. An unqualified opinion was issued on the general purpose financial statements.
2. The audit of the general purpose financial statements did not disclose a material weakness in internal control.
3. The audit did not disclose any noncompliance, which is material to the general purpose financial statements.
4. The audit did not disclose any material weaknesses in internal control over major programs.
5. An unqualified opinion was issued on compliance for major programs.
6. The audit did not disclose any audit findings relating to major programs required to be reported as described in Section 501(a) of OMB Circular A-133.
7. The major program is the HUD Community Development Block Grant– CFDA #14.219.
8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee did qualify as a low-risk auditee.
10. The prior audit contained no findings and questioned costs relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section 315(b) of OMB Circular A-133.

Section 2: Findings Related to the Financial Statements

The results of our tests did not disclose any material findings.

Section 3: Findings Related to Federal Awards

The results of our tests did not disclose any findings and questioned costs related to federal awards.